

STOCK EXCHANGE PRACTICES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-SECOND CONGRESS

FIRST SESSION

ON

S. Res. 84

A RESOLUTION TO THOROUGHLY INVESTIGATE PRACTICES
OF STOCK EXCHANGES WITH RESPECT TO THE
BUYING AND SELLING AND THE BORROWING
AND LENDING OF LISTED SECURITIES,
THE VALUES OF SUCH SECURITIES
AND THE EFFECTS OF SUCH
PRACTICES

PART 2

APRIL 23, 26, MAY 19, 20, 21, AND JUNE 3, 1932

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Mr. GRAY (interposing). Of course, in the carrying out of the buying and selling, I understand that. Have you been a member of a syndicate in which specialists have been members?

Mr. SMITH. No; I have not.

Mr. GRAY. Have you ever known a specialist to disclose the information contained in his books?

Mr. SMITH. No; I did not.

Mr. GRAY. If he did so it would be illegal, would it not?

Mr. SMITH. I don't know.

Mr. GRAY. You are a member of the stock exchange, and do not know that?

Senator COUZENS. What does the counsel mean by "illegal"?

Mr. GRAY. Illegal conduct on the exchange, in violation of the rules of the exchange, if I have to answer questions, Senator Couzens.

Senator COUZENS. That would not necessarily be illegal would it?

Senator GLASS. You concede it is dishonest, do you not?

Mr. SMITH. I do not think it would be dishonest for me to go to a specialist and say, "What kind of a bid have you got for a stock now?"

Senator GLASS. Would it not be dishonest in him to tell you?

Mr. SMITH. No, sir; he could tell me that he had a bid for 500 or 1,000 shares.

Senator GLASS. Why should he?

Mr. SMITH. Why should he?

Senator GLASS. Yes; why should he tell you that?

Mr. SMITH. Because you might want to sell it.

Senator GLASS. Well, I think a fellow who would do that would pick your pocket.

Mr. GRAY. I might direct the committee's attention to the fact that the rules provide that if a specialist did that, he would be immediately investigated and put off the floor; that is the reason I used that term. That is what the testimony shows.

Now, let me come back because I want the basic information from you to-day. Give me a list of the pools and syndicates that you have been in. You started off with Lima Locomotive. What others?

Mr. SMITH. Radio.

Mr. GRAY. Who was in the Radio pool?

Mr. SMITH. A great many people.

Senator GLASS. Well, was it not testified here that one of those specialists was in that pool?

Mr. GRAY. Michael J. Meehan was a specialist in Radio, and was in this pool.

Senator GLASS. That is what I thought.

Mr. GRAY. I wanted to get this witness to state it.

Mr. SMITH. I do not think that is so.

Mr. GRAY. He was not?

Mr. SMITH. No; I do not think Mr. Meehan has ever been a member of any pool. It is in his wife's name. [Laughter.]

Senator GLASS. He is one of those wise fellows who never tells his wife anything.

Mr. GRAY. Why would he put it in his wife's name, Mr. Smith? Only to evade the inference that is to be drawn from the fact that

he is a specialist in that stock, and was a member of the pool in that stock?

Mr. SMITH. No; for the same reason that I would do it.

Mr. GRAY. Why did you do it?

Mr. SMITH. Because it is a rule of the exchange that you can not be a broker and a principal at the same time. It is also a State law.

The CHAIRMAN. His wife would be one and he the other?

Mr. SMITH. Yes, sir.

Mr. GRAY. That is one of the ways they evade the rule?

Mr. SMITH. I would not say that they evade the rule.

Mr. GRAY. Of course, when the wife acts for him in those cases, she is only, in that case, a dummy name, is she not?

Mr. SMITH. I do not know what you are trying to infer.

Mr. GRAY. I mean, she is not a real name in the pool but only a name he is using?

Mr. SMITH. I can not answer for Mr. Meehan.

Mr. GRAY. What about yourself?

Mr. SMITH. My wife is over 21, and she has money of her own.

Mr. GRAY. And do you mean to tell me that every time you use your wife's name that it is a case where she is actually a member of the pool?

Mr. SMITH. No; I do not.

Mr. GRAY. Then you mean to admit to me that you desire to evade the rules of the stock exchange, and not desiring to use your own name, you use your wife's name to cover the transaction?

Mr. SMITH. If you want me to answer that way, I will say yes.

Mr. GRAY. That is what I want to know. Now who was in this Radio pool? First, tell me what year it was in.

Mr. SMITH. It may have been—I think it was in 1928.

Mr. GRAY. Was it 1928 or 1929?

Mr. SMITH. 1928, I think.

Mr. GRAY. How long did it last?

Senator COUZENS. Let us get the names one at a time, please.

Mr. GRAY. All right. Give us the names.

Mr. SMITH. I think Rockefeller was in it.

Mr. GRAY. Yes. By that you mean Percy A. Rockefeller?

Mr. SMITH. Yes, sir.

Mr. GRAY. And Meehan's wife?

Mr. SMITH. And Meehan's wife.

Mr. GRAY. What is her first name?

Mr. SMITH. Elizabeth.

Mr. GRAY. And who else?

Mr. SMITH. Gertrude D. Smith.

Mr. GRAY. By the way, did they use her married name or her maiden name?

Mr. SMITH. I could not say. In my case, it was——

Mr. GRAY. You do not know what her maiden name is, or was?

Mr. SMITH. No, sir.

Mr. GRAY. Now, Gertrude A. Smith?

Mr. SMITH. Gertrude D.

Mr. GRAY. Gertrude D. Smith?

Mr. SMITH. Yes, sir.

Mr. GRAY. That is your wife?

Mr. SMITH. Yes, sir.

Mr. GRAY. Who else? Mr. Bragg?

Mr. SMITH. Mr. Bragg.

Mr. GRAY. Who else?

Senator COUZENS. Was Owen D. Young?

Mr. SMITH. No; Owen D. Young wasn't in it.

Mr. GRAY. Mr. Raskob?

Mr. SMITH. No. He may have been. I don't remember.

Mr. GRAY. Mr. Kenny?

Mr. SMITH. Why, W. F. Kenny, I think.

Mr. GRAY. Fred Fisher?

Mr. SMITH. Yes; Fred Fisher.

Mr. GRAY. Did Raskob use his own name?

Mr. SMITH. I do not know.

Mr. GRAY. Did Kenny use his own name?

Mr. SMITH. I do not know.

Mr. GRAY. Did Fisher use his own name?

Mr. SMITH. If he was in it, he did. I may be mistaken about that.

Mr. GRAY. Anybody else?

Mr. SMITH. There were a great many.

Mr. GRAY. Will you furnish us that list of the names? Mr. Bragg said he would furnish it immediately, or before he is required to come down again. Will you furnish us a list of the names?

Mr. SMITH. Yes, sir.

Mr. GRAY. Thank you. Now, what others?

Senator FLETCHER. What was the purpose of organizing this pool?

Mr. SMITH. To make money.

Senator FLETCHER. Well, make it how?

Mr. SMITH. Through selling the stock at a profit.

Senator FLETCHER. Buying stock and then boosting it and unloading it at a profit; is that the idea?

Mr. SMITH. Yes, sir.

Senator GLASS. In other words, to affect the market fictitiously, to put it at a higher rate than that at which you bought?

Mr. SMITH. Well, I would not say that you affect the market fictitiously, Senator. If you want me to go into details in some experiences I have had in connection with putting stocks—

Senator GLASS (interposing). Well, is it not the real purpose to put the stock up regardless of its earning power?

Mr. SMITH. No, sir; I would not say to put it up regardless of its earning power, because it had very good earning power at the time.

Senator GLASS. Perhaps so.

Mr. SMITH. And the prospects were very bright for earning considerably more than it was earning.

Senator GLASS. And your idea in buying the stock was to put the stock up?

Mr. SMITH. Yes, sir.

Senator GLASS. To make your impression on the market to put the stock up?

Mr. SMITH. Yes, sir.

The CHAIRMAN. And then sell it?

Mr. SMITH. Yes, sir.